The Minister of Finance has had his attention called to an enquiry in the House of Commons, whether the Governor General has approved of a "Recommendation of Council, that "money raised under the Imperial Guarantee, for the construction of the Intercolonial Rail-"way, should be applied to the payment of the general debts of the Canadian Dominion, and "whether such application is not in contravention of the Canadian Railway Loan Act, 1867," and he thinks it proper to call Your Excellency's attention to the circumstance in order that the imputation which is impliedly made on the good faith of the Government may be promptly repelled.

1st. The Act of Union provided that, "it shall be the duty of the Government and "Parliament of Canada, to provide for the commencement, within six months after the "Union, of a Railway connecting the River St. Lawrence with the City of Halifax, in Nova "Scotia, and for the construction thereof without intermission, and the completion thereof "with all practicable speed."

The Government felt it to be their duty to carry out this provision of the Constitution with all possible diligence. A great portion of the route had been so far surveyed in former years that it was believed it could be placed under contract in the course of last summer or autumn.

2. It was, however, necessary, before doing this, to place the Loan; and the Finance Minister, in the course of his negotiations with the Imperial Government, in July, 1868, intimated, that he would only raise one-half the authorized amount until the progress of the works made it necessary to provide the remainder.

3. In the course of negotiations with the Financial Agents, Messrs. Baring & Glyn, the Finance Minister endeavored to postpone the payments on the Loan to as remote a day as possible; but it was thought that it would militate against the success of the operation if the last instalments were deferred beyond April, 1869, or if the privilege of paying by anticipation were not accorded to the subscribers.

4. When the Loan was contracted for, a considerable number of the subscribers availed themselves of this option, and a large amount of money was paid in by anticipation.

As interest on the entire Loan of Two millions ($\frac{3}{4}$ths bearing 4 per cent, and $\frac{1}{4}$th bearing 5 per cent), began in July, 1868, and was payable by Canada from that day, it became the obvious duty of the Government so to place the money received, as that an undue loss of interest might be avoided.

5. The Minister of Finance accordingly requested Messrs. Baring & Glyn, the Financial Agents, to endeavor to do so at the best rates they could, "compatible with perfect security "and immediate convertibility;" but these gentlemen informed the Goverment that in the present state of the money market, and consistently with these conditions, they could not obtain a higher rate of interest than one per cent per annum.

Had they been able to have placed the deposits at any reasonable rate, the Government would have been relieved from the necessity of seeking other means of temporarily employing the instalments.

6. Under the circumstances mentioned the Government had, however, to consider what other means, on the like conditions of immediate convertibility and perfect security, were open to them as a temporary investment.

7. The Government of Canada was, at that time, about issuing securities to provide for certain engagements of the Dominion which it was desirable to fund or otherwise meet; and it was considered that no better or more perfect security than those adverted to could be provided in which to place a portion of the moneys, lying comparatively unproductive, until these moneys were required to be disbursed to the contractors on the works.

8. The Government had not ceased to urge the completion of the surveys with all possible speed, and they endeavored to push on the letting of the works as rapidly as possible. All the sections, on which the location surveys were sufficiently advanced, were accordingly let last winter by public tender. They are seven in number, 162 miles in length, and the cost is estimated at $5,000,000. On these sections operations are being actively prosecuted, and the contractors are entitled to payment as the works proceed.

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9. The Engineers have been continually engaged in locating the remaining sections, and these will be placed under contract as rapidly as possible. On one portion of the route a railway had been already built, by a private company—about 36 miles in length. The propriety of acquiring this line, and making it a portion of the Intercolonial, was always contemplated as a possibility, and if the negotiations having that object in view, which began some time ago, are concluded, it will involve an immediate large cash outlay, in addition to the payment of the current works, out of the Intercolonial Fund.

10. It will thus be seen that the most energetic steps were taken from the outset to accelerate the progress of the works, and that the Government are not open to the suspicion of having deferred their prosecution for one hour, but that on the contrary they have endeavored to carry out, with the utmost promptitude and good faith, the obligations entailed upon them by the Act of Union, with reference to the Intercolonial Railway.

11. It may be asked why the Loan could not have been postponed for some months, or a less amount issued, inasmuch as it now appears that the whole of the money will not be spent for some time? To this enquiry there are obvious and conclusive answers. The Government could enter into no contracts, nor negotiate for the acquisition of any intermediate portion of the Line, until they saw that the money was available. A considerable sum had actually been spent on surveys, etc., etc., by anticipation. The money market was then unusually favorable, and it might have been a most serious matter, in a pecuniary point of view, to the Dominion, if the Loan had been deferred until a condition of things arose, which might have entailed on Canada the payment for 35 years of a higher rate of interest. The Financial Agents of the Government considered the time unusually opportune. Her Majesty's Government were in full possession of all the circumstances, and gave their unqualified consent to the operation on the terms and to the extent to which it was carried out.

12. The Government of Canada had therefore, under these circumstances, to deal with the alternative, of allowing the large deposits to remain unproductive and entail a loss of about $325 000 a year; or of placing them temporarily, and in a way that would be available as the money was required for actual outlay.

It was not unnaturally to be supposed, that if the Imperial Government had sufficient confidence in Canada to guarantee or endorse her Bonds, the same confidence also extended to trusting her with the outlay of the money on the work for which it had been raised; a work which was declared to be essential to the consolidation of the Union of British North America, and a condition of the assent thereto, of Nova Scotia and New Brunswick; and one to the completion of which the good faith and interest of every Province of the Dominion were pledged.

If the Imperial Government had conveyed the intimation that Canada could not be entrusted with the money for the prosecution of its own works, or had sought to impose restrictions on its outlay, which would necessarily have presupposed that distrust, the Finance Minister believes it would have been the unanimous opinion of the people of Canada, that the guarantee of Her Majesty's Government to the Loan,—however highly they might have prized the granting of it—and however advantageous it might have been ought not to have been accepted on such a condition.

13. The meaning of the enquiry made in the House of Commons plainly is, that under the pressure of Financial necessity, Canada used the Intercolonial money, if indeed the enquiry be not meant to convey the imputation that Canada raised the Loan prematurely with that object. The Minister of Finance believes it to be his duty to repel an insinuation, which would be alike unworthy of the Government, as it would be utterly opposed to the character for good faith and straightforward integrity, which the people of every Province of the Dominion have justly earned, and for the maintenance of which they have ever held the representatives in whom they place confidence to a strict observance.

14. It is only necessary to advert to the Financial condition of Canada at the time, to prove how irreconcilable with the actual facts such a supposition is.

It is true that there was a certain amount of floating liability due by the Dominion, but only to its fiscal Agents in London, its Bankers in Canada, and a small amount to one of the Provinces of the Dominion.

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This liability,—so far from being pressing,—was one which the public creditor would have too gladly allowed to remain, but the Government thought it proper to make provision for its gradual funding, partly out of deposits in the Government Savings Banks; partly out of deposits required from Insurance Companies, under the law, and by other equally certain means. Had they been disposed to place a loan for this purpose on the market, it could have been successfully accomplished without any difficulty; for the only loan issued since the Union (except the Intercolonial) was promptly taken up in Canada; the 6 per cent Stock being now readily saleable and in continued demand at a premium of 8 to 9 per cent; and the Government has been compelled to decline repeated applications for further issues.

A certain amount of bonded debt also fell due last autumn, for which ample provision had been made but the great bulk of the holders expressed in advance their wish either to renew it or convert it into the Dominion Stock already mentioned:—an offer which the Government thought it proper in the public interest to decline.

15. It is unnecessary to say more to prove how unfounded is any imputation that the motive of financial necessity had any part whatever in inducing the arrangements with reference to the temporary investment of the Intercolonial money, or to shew that the Government was influenced solely by the one single consideration of finding a temporary investment for it, on the condition of perfect security and immediate convertibility, by which a heavy loss of interest might be avoided.

In carrying this out, the Government took unwonted and exceptional precautions in order that, by no possibility whatever, might there be any doubt that the money borrowed would be as safe and as immediately available as it would have been, were it deposited at call in the Bank of England.

16. Some of these precautions are indicated in general terms in the Order in Council, approved of by His Excellency the Governor General in August last, a copy of which with the accompanying report of the Minister of Finance, it is presumed, was transmitted to the Secretary of State for the Colonies by His Excellency.

The Minister of Finance is are not aware that any exception has ever been taken to the arrangements so made.

17. It is proper briefly to recapitulate the means immediately and prospectively available to the Government of Canada for the purposes above mentioned.

a. The Government have a cash balance in the hands of their Bankers of upwards of $2 750 000, a portion of which they are now endeavoring—though so far unsuccessfully—to place on special deposit at interest.

b. They have a further special deposit with their Bankers at 4 per cent interest of $1,500,000.

c. They have in the hands of Messrs. Baring and Glyn, an amount estimated by the last advices at $2,900,000.

d. They have India Bonds in the hands of Messrs. Baring and Glyn, worth about $750,000.

e. They have preferential securities, of undoubted value, payable in 1, 2, 3 and 4 years from January last, with interest, of the Great Western Railway Company of Canada, amounting to $2,750,000.

f. They have receipts from the Post Office Savings Bank, which since their establishment have averaged about $50,000 per month, and which in the course of the next year are estimated (beyond the cash in hand) at $600,000.

g. They have deposits by Insurance Companies of Consols, Stocks and Bonds, about to be converted into cash within 2 years, of $1,500.000.

h. They have purchased Bonds in anticipation of the requirements of the Intercolonial Sinking Fund to about $270,000.

i. They have provided,—over and above the foregoing means,—special credits with the Bankers and Financial Agents of the Government for the express purpose of meeting any possible call on Intercolonial account, viz., with

Messrs. Baring and Glyn $1,250,000.

The Bank of Montreal, $2,500,000.

18. It will thus be seen, that the statement of having applied the money raised under the Canada Loan Act 1867, in payment of the general debts of the Dominion in contravention of that Act, is without a shadow of foundation.

The credit of the Dominion of Canada stands too well to render the recourse to any indirect or unworthy means for the payment of her debts necessary, and she prizes her reputation for good faith too highly to resort to them. Canada has but to offer her own securities to her own people, or on the London money market, as she may think most for her advantage, to find whatever means are needed for the maintenance of the public credit, or for the prosecution of enterprises which her people think can be prudently and advantageously undertaken. And while her obligation to complete the Intercolonia. Railway will be fulfilled to the letter, she claims the right of making such subsidiary arrangements, whether in regard to the Loan or the works themselves, as her own interests may require.

19. Her Majesty's Government has hitherto extended a most generous confidence to Canada in connection with all the antecedent negotiations on this subject, and there is no reason to believe that in future that confidence will be abridged. This feeling induced the Minister of Finance to recommend to His Excellency the propriety of making the extraordinary and unwonted provisions already referred to;—provisions which under ordinary circumstances need not have been made, and it now impels him to submit these observations for Your Excellency's consideration, in order that Her Majesty's Government may have the means of justifying the confidence which in this matter, as in all others, they have invariably reposed in the good faith of the inhabitants of British North America.

It is the duty of Canada to see that the amount of the Loan is faithfully expended on a work in which Her Majesty's Government and the Dominion have confessedly a common interest. Of that duty Canada is fully sensible, and it will be performed with the most exact integrity.

JOHN ROSE,
Minister of Finance.

OTTAWA, 29th May, 1869.